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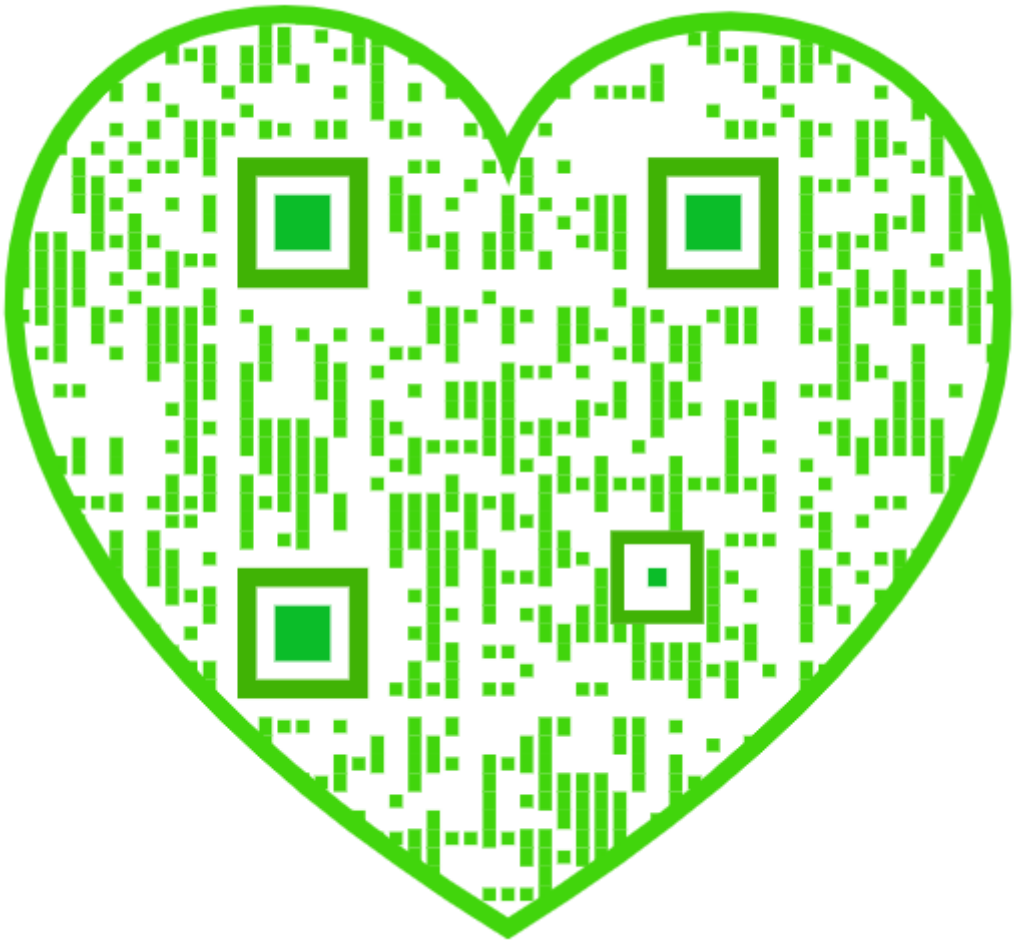

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FOREWORD

The publication of this Encyclopaedia of Banking has been induced and suggested by its evident need. The so-called layman and the persons embarking upon business ventures, have, at numerous times, been confronted by the inevitable problem of banking in its application to themselves. The desired information is contained herein.

S. I. L.

A fundamental requirement

Opening an Account—The first practical step to a banking transactions is, obviously, the "opening of an account." Any one of the employees in a bank will direct the person who wishes to open an account to the officer whose duty it is to serve new depositors.

If it is desired to open a checking account, the bank will ask for references, such as; former banking connections (not a savings bank as they do not require identification) or some reputable business man or firm to whom the new depositor is known.

Very desirable protection

Quite often the question has been asked why a bank should require references from the person opening an account. This is necessary for the protection of both the bank and the public. For instance; a person may open an account with the deposit of stolen, worthless or forged checks, and immediately wish to draw against the account just opened,

but unless the bank establishes the identity of the new depositor it has nothing on which to base its belief and is therefore responsible to the maker and payee.

Caution that will prevent unnecessary delay and annoyance

Account in Trade Name—In order to operate under a trade name, it is necessary to make application to the county clerk for permission to use a particular trade name. If the county clerk finds that there is another individual or set of individuals already doing business under that name he will refuse the permission, for the reason that it will not only cause confusion, but also injure the business of those already granted the right to transact business under that name.

Liable to fine

Failure to apply for this permission may subject one to a heavy fine. It is obvious that when a check made payable to the order of a trade name is offered for deposit at the bank, the bank

has no way of knowing that the person endorsing this trade name on the back of the check has been granted the right to operate under that name, or that the person signing for the trade name has the authority to do so, unless a copy of the county clerk's certificate is on file at the bank. The certificate protects the individual and the bank.

Routine of business principles

Corporation Accounts—An incorporated business is obliged to provide the bank with a copy of a resolution from the minutes of the meeting at which those elected were authorized by the corporation to open an account in their name, and an extract from the by-laws naming the officers who are authorized to handle the funds of the corporation. This resolution should be signed by the secretary and should bear the corporate seal. Many banks furnish a form prepared for this purpose which they will supply upon request.

Notify bank

Should any change be made in the officers signing checks for the corporation, it is essential that the bank be immediately notified and a new resolution passed authorizing the new officers to sign for the corporation. A copy of the new resolution must be delivered to the bank.

Do not deviate from your signature

Signature—In order for one to draw against funds on deposit in the bank, it is necessary to leave a specimen of one's signature on file with the bank to guide them in passing upon the authenticity of the signatures on the checks presented for payment. It is quite apparent that one must be very careful to sign one's name in exactly the same way each time.

For example: Should Mr. Jones desire to sign "J. J. Jones" instead of "John J. Jones," he must first call at the bank and leave a specimen of the new signature, otherwise the bank will

refuse to honor checks signed the new way.

Authority entrusted to others

Power of Attorney—One may designate another person or persons to sign for him by executing a "power of attorney" in which it is set forth that the person or persons so designated have the power to act for him in all matters pertaining to the bank account in the same manner as he might or would for himself. This arrangement can be terminated by simply notifying the bank in writing of the desire to discontinue the power of attorney.

To record deposits

Pass Book—A "pass book" is the bank book given the depositor by the bank and in which his deposits are recorded. Some banks balance the pass book when requested to do so and it then shows the state of the account. Other banks mail the depositor a monthly statement.

Bank Book—Same as pass book.

For convenience

Check Book—A "check book" is a printed book of blank checks.

Checks Issued—The purpose of checks is to facilitate, as much as possible, their free passing from hand to hand like currency.

A check is an unconditional written order to a bank or banker instructing them to pay a certain fixed sum of money.

Write plainly

All checks should be dated the current date, (do not date ahead) made payable to the order of cash, bearer, one or more persons, firm or corporation, real or fictitious, for a certain definite amount and signed by the maker.

Checks are usually numbered but while this is not necessary it helps in locating the check should the occasion arise.

Words and figures must agree

Checks payable to cash, bearer, payroll, rents, etc., are payable to the bearer or

holder. The bank, however, may require proper identification before payment is made if they deem it necessary.

Every check is presumed to have been issued for a valuable consideration, and want of consideration in the issuance of the instrument (check) is not a defense against a bona-fide holder or a holder in due course.

Fill in date

Date—Checks should be dated. If the check does not bear a date, it is presumed to be current date and may be inserted by any person.

Reconcile writing with figures

Writing or Filling and Figures—The "writing or filling and figures" on each check should agree. When there is a difference the bank will sometimes pay the lesser amount although it may refuse to pay checks drawn in this careless manner. While it is possible that a person might err when writing the figures on a check it is not likely

that a mistake would be made when the amount is being written out. To safeguard both parties the bank may induce the holder to have check corrected by the maker.

Accept properly endorsed checks only

Deposits—When accepting checks be very careful to see that they are issued in the name of the depositor or are endorsed by the person to whom the check is payable. If payable to bearer it is not necessary for a check to be endorsed but it is advisable to secure the endorsement of the holder, as it may help to identify the party from whom received, in case payment is refused for some specific reason.

Very important

Banks will not accept checks for deposit by an individual that are payable to companies operating under trade names, or to corporations unless they, the bank, have the proper authorization on file from the county clerk or corporation

in which permission is granted to transfer funds.

Variable endorsements

Where checks are made payable to two or more persons it may be specified that the amount of the check is to be paid to any one or all of them. In the first case, any one endorsement is sufficient. In the second, all are required to endorse.

Depositor's liability

Acceptance of Checks by Bank for Deposit—The bank merely acts as agent for the depositor in the collection of checks deposited. The entering of the amount in the pass book, however, does not relieve the depositor from liability should the checks be returned unpaid. Some banks specify this in their pass books and on their deposit slips.

A bad practice

Post-Dated Checks—A check that is dated ahead is a "post-dated check." It is usually given when the maker has not sufficient funds in the bank, at the

time he issues it, but expects to have at the time of its date.

Do not alter

A post-dated check is invalid if it be altered so as to make the time shorter, even if the change of date is but one day. When a check is post-dated the maker does not guarantee that he has the money on deposit to meet the check and therefore the holder of same takes it free from equities.

A post-dated check may be considered a "bill of exchange."

Avoid alterations

Altered Checks, Drafts and Notes—The bank usually exercises the right to refuse to pay any checks, drafts and notes that have been altered for the reason that very often it cannot determine whether the alteration has been made by the drawer, depositor or some other person. The bank paying such an instrument does so at its own risk.

Check or Note to Fictitious Person— *Inadvisable*
A check or note payable to "John Smith or Bearer," or payable to "Cash," or "X Y Z," or "Oliver Cromwell" (a non-existing person) is what is termed to be made payable to a "Fictitious Person" and is actually payable to "Bearer."

Overdrawn or Overdraft—"Overdrawn" or "overdraft" is the term in common use when a check issued exceeds the sum against which it is drawn. The bank, of course, is obliged to return such checks, the result of which reflects upon the credit standing of the maker and should be guarded against. *Avoid this*

Drawing Against Deposits—Sufficient time should be allowed for the collection of checks deposited before drawing against them. The receiving teller will be glad to advise of the length of *Adhere strictly*

time required for the collection of checks on any given point.

It is very annoying to a bank to be obliged to return a check for insufficient funds. This not only is an inconvenience to the bank but greatly reflects upon the credit standing of the maker.

He pays

Payer—A "payer" is the person, firm or corporation who pays, or issues an order to pay.

Denotes acceptance

Endorsements—A check, note or draft is considered endorsed when the person or persons to whom it is payable have written their name or names on the back of the instrument.

Endorser's risk

Blank Endorsement—A check is endorsed in "blank" when the person to whom it is payable has written his name on the back of the instrument.

The check then may be given by the holder to another, and he in turn may negotiate the check by endorsing his name in the same manner underneath the first endorsement. The second holder could, if he chose, turn the check over to a third party without endorsing it as the first endorsement made the check payable to bearer.

Not good practice

However, it is not good practice to accept a check without the endorsement of the individual from whom it is received.

Correct and secure

Special Endorsement—When the payee or holder of a check specifies to whose order the money is to be paid, signing his name underneath, the person so designated must in turn endorse the check in order to secure the money. For instance, a check issued to "John Jones" and he (John Jones) in turn wishes to make this check payable to

"James Brown" he would endorse it as follows:

"Pay to the order of
James Brown
John Jones"

This form of endorsement is legally and practically correct and safe, and is preferable to other forms of endorsement.

One signature sufficient

Partnership Endorsements—Checks payable to a partnership need only be endorsed in the name of the partnership by one of the partners, so long as one is convinced that the endorser *is* a partner of the firm. Only the firm name need be written as, for example: "Brown & Jones." This constitutes a legal endorsement.

An officer's function

Corporation Endorsements—Checks payable to a corporation must be endorsed by the officer or officers of the corporation who have been given such authority. A properly worded rubber

stamp is an acceptable endorsement for deposit only.

Unusual and improper

Individuals must not accept checks payable to corporations unless these checks have been transferred by endorsement by the officer or officers of the corporation who have been given corporate authority to transfer their funds in this manner.

Recognition without liability

Qualified Endorsement—A "qualified endorsement" constitutes the endorser a mere assignor of the title to the check, note or draft. It may be made by adding to the endorser's signature "without recourse" or any other words of similar import.

The negotiability of the instrument is not impaired by such endorsement. The endorser in this case is not liable.

Limited to transferee

Restrictive Endorsement—A "restrictive endorsement" is one which sets forth that the amount on the check is to

be paid only to the person designated. As for instance: a check issued to "John Smith" who wishes it to be paid to "John Doe," would be endorsed as follows:

"Pay to John Doe only
John Smith"

A third party method

Restrictive Endorsement in Trust—This form of endorsement is sometimes referred to as "third party endorsement.". As a matter of convenience, if a person is out of town and the holder or owner of a check wishes it to be deposited to this specific person the restrictive endorsement in trust, if the holder or owner be John Doe, would read as follows:

"Pay to Blank Bank
For the account of
John Smith
John Doe"

Third Party Endorsement—Same as "restrictive endorsement in trust."

Very often costly

Accommodation Endorsement—Any one who makes a note or endorses a check, draft or note, lends his name to the transaction, and should the instrument in question not be paid, he is liable even though he has merely done so for the purpose of accommodating others and has received nothing of value for the use of his name.

An unwarranted risk

Irregular Endorser—An "irregular endorser" is a person who not otherwise a party to an instrument, places thereon his signature in blank before delivery. Such a person is liable as an endorser as follows:

a If the instrument is payable to the order of a third person, he is liable to the payee and all subsequent parties.

b If the instrument is payable to the order of the maker or bearer, he is liable to all parties subsequent to the maker.

c If he signs for the accommodation of the payee, he is liable to all parties subsequent to the payee.

Not customary or acceptable

Conditional Endorsement—A "conditional endorsement" is one which sets forth that the money is to be paid only upon performance of some agreed condition, contract or agreement.

For instance: John Doe issuing a check to himself would endorse it as follows:

"Pay John Smith
upon completion
of his contract
John Doe"

This form of endorsement is very uncommon and is not acceptable by a bank.

Responsibility ended

Without Recourse—This term is usually applied to a person endorsing an instrument for transfer and beyond which he cannot be held liable.

Prevent this

Misspelled Name—Where the name of a person on an instrument is misspelled, the payer may endorse it the misspelled way and add his proper signature.

Do it now

Stale Checks—It is important that all checks be presented for payment or deposited immediately upon receipt as a bank may exercise the right to refuse to honor checks bearing an old date. Such checks are known as "stale checks."

Endorsee—An "endorsee" is one in whose favor endorsement is made.

The holder's privilege

Certified Checks—A "certified check" is one that bears on its face the rubber stamp of the bank on which it is drawn, certifying that the signature is genuine and that the amount has been charged against the maker's account and placed in a special fund.

If a holder has a check certified the maker of the check and previous en-

Certification Justified

dorsers are released from liability and it becomes an obligation of the bank. This applies in all cases except where the maker of the check has it certified and then negotiates it. In this case if the bank should fail the maker would still be liable.

A check is usually certified for the reason, that a doubt exists in the mind of the holder as to the worth of the maker, or that he desires to use the funds immediately.

A bank cannot certify a check dated ahead any more than it can pay a check dated ahead.

An accommodation

Cashier's Check—A "cashier's check" is a national or state bank's own check issued in exchange for money or its equivalent and is similar to all others in form. It is considered the same as cash so long as the party to whom it is payable can identify himself.

A "cashier's check" is used by a bank to pay its own bills and is issued to its depositors for their convenience.

A convenience

Treasurer's Check—A "treasurer's check" is a trust company's own check issued in exchange for money or its equivalent and is similar to all others in form. It is considered the same as cash as long as the party to whom it is payable can identify himself.

Trust companies pay their own bills with treasurer's checks and they are issued to its depositors for their convenience.

Notify bank promptly

Lost or Stolen Checks—Payment by a bank of a "lost or stolen check" payable to bearer or cash, or a check that needs no further endorsement, without notice, does not render the bank liable.

Do it promptly

Stop Payments—In order for a bank to "stop payment" on a check, it is

essential for the maker to direct the bank in writing at which time the bank must be furnished with a complete description as to: number, date, to whom issued and amount.

Be explicit

The bank cannot be held responsible for the payment of a check on which payment has been stopped if the written description does not correspond in every detail with the check.

Issue substitute check

If payment has been stopped on a lost check and this check is later found, the order to "stop payment" may be revoked in writing and the check will be honored. It is advisable, however, to issue a new check bearing a different date and number notifying the bank that this has been done.

An advantage

In order to allow sufficient time for the maker to stop payment on his check, there is a standing rule in banks that checks will not be cashed except between regular banking hours.

Expedient proceeding

Stop Payment by Telegraph—As a request to "stop payment by telegraph" is necessarily in writing, it is therefore perfectly proper and legal to stop payment of a check by telegraph. It is advisable to confirm such instructions by letter enclosing copy of telegram.

Not authentic

Stop Payment by Telephone—Banks will not stop payment on checks if instructed to do so by telephone. It is entirely possible that a person having knowledge of checks issued may, as a hoax or for the purpose of serious annoyance, attempt to stop payment on them by simply telephoning the bank. It is obvious that the bank is not obliged to heed such instructions unless convinced that the person telephoning is the maker of the check and then only upon agreement that he will confirm same in writing by the following morning at the latest.

Courtesy of bank

The recipient

Payee—A "payee" is the person, firm or corporation to whom the order is made payable, or is the receiver of moneys.

Safeguard your signature

Forgery—The bank is obliged to know the signature of each depositor and if it pays a check on a forged signature of the maker the bank must bear the loss. A bank must also bear the loss if it pays a forged check to an innocent holder.

Your account must tally with bank

Reconciling a Bank Account—It is very important that the balance as shown on depositor's check book agrees with the balance in the bank. In order to obtain this information a statement should be secured from the bank about once each month and immediately proven with the check book.

An easy method is as follows:

Arrange the cancelled checks returned by the bank according to number, com-

pare them with the stubs in the check book and make a list of all checks which have not been returned by the bank; these are known as outstanding checks. Next subtract the total of the outstanding checks from the balance on the bank statement and the amount arrived at should agree with the balance in the check book. If they do not agree, after having carefully verified additions and subtractions, take it up with the bank immediately for correction and reconciliation.

Ordinary business judgment

Charges for Carrying Small Accounts—The average monthly balance of a depositor's account must run above a minimum average established by the bank, below which the bank cannot carry the account without a loss to itself. In view of this, banks generally have been forced to make a monthly charge for accounts that run below the bank's fixed minimum balance.

To prevent losses

This charge is justifiable in that the bank, as any other commercial institution, cannot run its business at a loss.

Unequivocal liability

Assumed Name—A person signing an "assumed name" to an instrument is liable to the same extent as if he had signed his own name.

A convenient arrangement

Drafts—A "draft" is a written order signed by the maker who is known as the "drawer," payable to himself, or his bank, instructing another to pay a certain fixed sum within a specified time. It may be drawn at sight (current date) or a certain number of days or months after sight. The person instructed to pay the money is called the "drawee," and the party to whom it is payable is called the "payee."

A mode of payment upon delivery

Sight Draft Attached to Bill of Lading—A "bill of lading" is a written receipt issued by a railroad or common carrier to the shipper of merchandise,

setting forth the manner of shipment, the rules and regulations governing the shipment, and a description of the merchandise.

Foreign negotiations

It is quite usual to sell goods to an individual at a distant point, with the understanding that a draft will be drawn on the buyer payable to the order of the seller or his bank, or some other party specified.

Bank collects

The railroad or common carrier, upon receipt of the goods from the seller, issues a bill of lading as described above. The bill of lading is then endorsed by the seller who attaches same to a draft drawn on the buyer and delivers it to his (the seller's) bank for collection.

Sight Draft—A "sight draft" is a draft payable upon presentation.

Time Draft—A "time draft" is one that is payable a certain number of days after sight.

Procedure of collecting

Purpose of Draft—The principal use of a draft is for collection, through a bank, of moneys due. This has become a common method of collecting unpaid accounts.

Purposes unlike

It differs from a check in that the draft directs a person, firm or corporation to pay the amount specified to the order of the drawer, or the order of a bank, whereas a check directs a bank or banker to pay the sum indicated. Should the drawee not accept the draft it may be protested in the same way as a check.

Drawer—A "drawer" is the person, firm or corporation who is the maker of the draft.

Drawee—A "drawee" is the person, firm or corporation upon whom a draft is drawn.

Acknowledging acceptance

Acceptance of Draft—The draft as originally drawn is of no value until

it has been presented for acceptance. If the drawee desires to accept the draft and wishes to pay it, he signifies his intention by writing the word "accepted" across the face of the draft, inserting the date, specifying the place at which he will pay it, and then signing his name. If the draft is drawn "at sight" it may immediately be presented at the place designated for payment and if payment is refused it may be protested.

Approval confirmed

In case it is a "time draft" the drawee has the right to take the time specified before arranging for payment.

The acceptance of the draft may be made on a separate piece of paper. In this event it is advisable that the acceptance be made in the presence of others. This will then be considered a valid acceptance.

Inadvisable

It has also been held that acceptance by telegraph is legal, although these cases are unusual.

Provisional agreement

The acceptance of a draft may be made conditional upon the performance of a contract or agreement between the drawer and the drawee. In the acceptance the drawee may specify that the money be paid out of a special definite fund, and in this case the drawer is limited to this special fund for payment. The drawee usually has twenty-four hours in which to accept or refuse. Should he hold the draft and refuse to return it. this is considered an acceptance.

Becomes holder

Acceptor—An "acceptor" is the one who by his signature signifies acceptance.

A means of settlement

Bill of Exchange—A "bill of exchange" is an order drawn by one party upon another for the payment of a certain sum at a given date. There are two forms—"foreign" and "inland."

A "foreign bill of exchange" is drawn in one country or state and payable in another.

An "inland bill of exchange" is drawn and payable in the same country or state.

Promissory Note — A "promissory note" is a common form of negotiable instrument. It is a promise to pay a certain fixed and determinable sum at a specified time. to the order of an individual, partnership or corporation. at a definite place.

Form of time payment

When accepting the note of a corporation or partnership it is very important that the acceptor of the note be convinced that the officer or officers of the corporation, or member of the partnership, executing the note, are properly authorized to do so.

Verify authority

Interest on Notes—The rate of interest on a note must not exceed the rate specified by the law of the state in which the note is payable.

A note may be drawn payable with or without interest.

Charge for loan

Discounts—When a bank takes interest in advance it is called "discount." A note is discounted by a bank when it deducts from its face value, in advance, the interest from date of discounting to maturity. This transaction is perfectly proper and legal, providing the interest deducted does not exceed the legal rate.

Maturity—When time fixed for payment becomes due.

Aids business development

Trade Acceptances—For years the custom prevailed in this country of selling goods on open book accounts. The seller frequently had to wait considerable time to get his money and was therefore unable to expand his business as rapidly as he could have. To overcome this difficulty the trade

acceptance, long used by the business men of Europe, was introduced.

Practical form of time remittance

The buyer draws a draft on himself payable to the order of the seller, then accepts the draft in the usual way and delivers it to the seller. The seller of the merchandise is then in a position to take this trade acceptance to his own bank and have it discounted. Should the acceptance not be paid at maturity the seller need not prove that the buyer gave it to him for merchandise as a printed statement on the acceptance establishes this fact. The discounting of the acceptance by the bank, of course, depends on the credit standing of the buyer and seller.

Having basic value

Commercial Paper, Negotiable Paper or Instrument—"Commercial paper," "negotiable paper," or "instrument" is the banking term applied to checks, notes, drafts, bills of exchange,

bills of lading or any paper of similar import.

Accepts in good faith

Holder in Due Course—A "holder in due course" is one who has taken an instrument under conditions:

a That it is complete and regular on its face.

b That he became the holder of it before it was overdue, and if it had been previously dishonored he had no notice of such a fact.

c That he took it in good faith and for a valuable consideration.

d That at the time he received it he had no knowledge or notice of any defect in the title of the person negoti- ating it.

Transferee—A "transferee" is the one to whom an instrument has been transferred.

Exchange on Checks, Notes and Drafts—All banks that are members of the clearing house or members of the Federal Reserve Bank are obliged to make a charge sufficient to cover the cost of collection of certain out-of-town items. This charge is called "exchange" and varies from 1/40 of 1% to 1/4 of 1%, depending upon the town upon which the instrument is drawn.

Refusal of payment

Protests of Checks, Notes or Drafts—The protesting of a check, note or draft by a notary public is sufficient evidence to prove that the instrument actually was presented at the proper place and acceptance or payment refused. Any and all endorsers are held liable for its face value.

Necessary notice

The notary public is obliged to send a notice to the maker or drawer, and all endorsers, stating that the instrument had been presented and payment or

acceptance refused. A small fee is made by the notary for this service which is charged to the maker or drawer of the instrument. The notary's notice may be used as evidence in case of lawsuit.

Negotiable—The term "negotiable" is applied to commercial paper or instruments such as checks, notes, drafts, stocks or bonds, etc., that the holder thereof can transfer either by endorsement or delivery so as to vest the legal right thereto to the transferee.

A holder

Bearer—A "Bearer" is one who holds and presents for payment a note, check, draft or other instrument which has been properly endorsed or is made payable to the holder.

Cost for use of money

Interest—"Interest" is the amount charged for the use of money, and the rate fluctuates like the price of any commodity. An unusual and heavy

demand for funds will cause the rate to rise. On the other hand, a plentiful supply of money will bring about a reduction in rate.

Locations govern interest

There is a law in all States fixing the rate of interest that may be charged. In the Eastern States the usual rate is 6%, but in the South and West as high as 12% has been held not usurious.

Interest is usually figured on the basis of 360 days to the year.

Face Value — "Face value" is the amount for which an instrument is drawn.

Rightful possessor

Bona-fide Holder — A "bona-fide holder" is the genuine holder or a person who holds an instrument in good faith.

Certificate of Deposit—If the amount in one's bank account is more than

sufficient for current requirements a "certificate of deposit" may be had.

Higher interest allowed

The "certificate" issued sets forth that the funds are to be repaid either on demand or at the expiration of a specified time, with interest at a rate higher than that ordinarily paid on checking accounts.

The interest rate on "demand certificates" is usually somewhat lower than on "time certificates." The particular advantage in this form of account is that interest begins on the day the money is deposited and runs until the money is withdrawn.

Loans—A "loan" is the amount of money that a bank advances for temporary use.

Complete information essential

Credit—Banks are in need of certain information to enable them to decide

upon the credit responsibility of persons applying for credit.

Prepare for future

In order to borrow on one's note or the notes of others, proper provision should be made beforehand, for such an emergency, by regularly submitting complete financial statements to the bank.

In this way the bank is enabled to make comparisons of the applicant's business growth and determine the amount they would be justified in advancing.

Confidence begets trust

A reputation for meeting one's obligations promptly cannot fail to create a favorable impression that will be of advantage for future accommodations.

Listed stocks and bonds preferable

Borrowing Money on Security — Banks as a general rule do not like to lend money on real estate as they feel that loans of this character should be arranged for through mortgages. Real estate does not make a good asset as

very often it is not readily salable without great sacrifice. Bonds and stocks of well known corporations having a ready market, such as those listed on the Stock Exchanges of the principal cities in the country, are best suited for loans of this character. The amount of money advanced on these securities is based upon a percentage of their current market value. The usual practice is to lend 80%. This rule is practically universal, except in the case of Liberty Bonds, in which case it is possible to borrow as much as 90%. It is usual to draw a note for ninety days with the privilege of renewal if a reduction is made in the amount of the loan.

Negotiable when endorsed

Bonds payable to bearer require no assignment or endorsement. Bonds or stocks when they are registered in the name of an individual must be placed in a negotiable form. This is done by executing what is called a bond or

stock power, in which the right, title and interest is assigned to the bank, enabling the bank to realize upon the security should the borrower default.

Allow ample margin

A bank requires a margin of 20% over and above the amount loaned, to be maintained at all times, and therefore should the market price of the securities pledged depreciate to any extent in value, the borrower may be called upon to either deposit more security, or make a payment on account of the loan in order to maintain the required margin.

Banker and borrower

Borrowing Money Without Security—When "borrowing money without security," of necessity the viewpoint of the banker must be entirely opposite that of the borrower, in that the money which the bank lends is not its property but the property of its depositors, to whom they are responsible and, therefore, in advancing money without secur-

ity the banker in the main considers the following:

a The length of time the applicant for credit has been a depositor.

b The average balance carried since the account was opened.

c The credit standing as reflected by reports of reputable commercial agencies and general reputation in the trade.

d Financial condition as shown by the applicant's statement.

A bank does not feel justified in lending money to a new depositor for the reason that it may not have had sufficient time to get acquainted and form an opinion of his character and business acumen.

Average balance

The established custom among banks is to lend to an individual, firm or

corporation about four times as much money as the average balance maintained. Should a bank advance money beyond this amount it is obvious that its loans would soon reach a point where they would be prevented from granting credit to other applicants worthy of accommodation.

Past record

It is quite usual for the banker to be met with the statement on the part of the borrower that he never thought it worth while to submit a financial statement to a credit agency. This attitude is all right so long as he has ample capital to carry him through all kinds of financial weather, but very few business men are in this position. On the other hand, a bank finds it convenient to go to a credit agency for the commercial history of the applicant and will further ask for the names and addresses of the principal people from whom merchandise is purchased in order that

they may communicate with them as to how they regard his credit standing.

Current assets

The items of one's financial statements which help the banker to determine the worthiness of credit are, among assets, the bank balance, accounts receivable, notes receivable, merchandise, and anything else which he may possess that is readily salable. These items are known as "current quick assets."

Current liabilities

On the liability side are the accounts payable, notes payable, and any other liabilities which may become due shortly. These items are known as "current quick liabilities."

A good financial statement should show current quick assets to be about twice as much as the current quick liabilities. The banker is concerned with these only, for the reason that should the borrower be unable to meet his obligations promptly he then feels that the

borrower has something on which the bank can promptly realize.

Value problematical

It is an established fact that furniture and fixtures depreciate rapidly and very little can be realized on their sale. Good will is of little value until one wishes to retire from business and even then the valuation to be placed on it depends more on the opinion of the buyer than the seller.

Loan committee

It is no longer banking policy to allow one man to pass upon loans. Practically all banks have a "loan committee" and all applications are presented to them for decision. About three or four days should be allowed after application has been made, for study of the data in hand, before the bank can decide the amount they are warranted in lending.

Kinds of Securities and Their Purchase and Sales—The word "securi-

ties" is a term usually given to bonds and stocks of nations, states, cities, railroads, public utilities or industrials.

Bonds and coupons

A bond is practically the note of a government or corporation. In the case of a corporation the bond or note is very often, though not necessarily, secured by a mortgage on their property or by a pledge of securities possessing a ready market. Instead of receiving interest on bonds in the form of a check, little oblong pieces of paper called "coupons" are attached to the bond or note and are usually payable every six months or quarterly (every three months).

Since the introduction of the Income Tax in 1913, it is necessary to file what is called an "ownership certificate" with these coupons when depositing or cashing them.

Ownership certificate

As the form of certificate to be filed depends upon the particular corporation

in question, and the capacity in which the holder is acting, and whether or not the holder is a citizen of the United States, inquiry should be made at the bank for a supply of the necessary forms.

Trading and activity

Many bonds though listed on the Stock Exchange do not enjoy a very active market, and very often there is a difference of two or three points (the term "points" is the common one in use and means either dollars or cents depending upon whether the market price is quoted in dollars or cents), and in some cases more, between the price bid by those who wish to buy and the price at which the security is offered by others, for sale. If it is desired to sell quickly the "bid price" must be accepted. The reverse is true if one wishes to buy. In an active market the difference between the bid and asked price is greatly reduced.

Relative values

Bonds are usually quoted on a basis of so much for each $100 bond. If the price is 65⅞, it means that $65.87½ will be paid for each bond in the denomination of $100, or $658.75 for a bond of $1,000 denomination.

Sale of bonds

In practically all cases the seller is entitled to interest from the last date on which the coupon was due and payable up to the date of sale. The only exception to this rule is where the payment of interest on the bond is dependent on some condition set forth in the bond itself. A commission is charged on the face value of bonds. In the event of sale this commission is deducted from the amount received for the bond and added to the cost of the bond in the case of a purchase.

Preferred and common stock

Stocks are broadly classified as "preferred" and "common." The holder of stock is the owner to the extent of his

holdings in the net assets of the corporation. Preferred stock usually carries with it the right to receive dividends before any dividends may be paid on the common stock, and has a prior lien upon the net assets of a corporation.

Dividends

A corporation is not obliged to pay dividends unless, in the opinion of its directors, the financial condition of the corporation warrants such payment. There are some stocks, the dividends on which are guaranteed by other stronger and bigger corporations, but these cases are comparatively few.

Sales of stocks

In order to make stock certificates negotiable, or when selling, it is necessary that they be endorsed on the reverse side by the registered owner exactly as the name appears on the face of the certificate. If the purchaser desires that the stock be registered in his name he is required to present the

certificate at the transfer office of the corporation and a new certificate is issued to him in his name, the old certificate being cancelled. It is not absolutely necessary to have the stock transferred, although advisable, if the purchaser expects to hold the stock any length of time. All endorsements on the back of the certificate must be guaranteed by a well known bank or stock exchange house before the transfer office of the corporation will accept it for transfer. Many stocks are registered in the names of stock exchange houses and the signature of those authorized to sign for them are on file at the transfer office. A certificate of stock registered in this way may change hands numerous times in the course of a year without ever being presented for transfer.

Trading units

Stocks are traded in on most Exchanges in units of 100 shares. They are quoted

on the basis of so many dollars per share. Smaller amounts than 100 shares may be bought or sold, with this difference that when sold it is necessary to accept from 12½ cents to 50 cents less per share, and when bought it is necessary to pay from 12½ cents to 50 cents more per share depending upon the particular security.

As in the case of bonds a commission is charged when stocks are bought and sold and the fee depends upon the market price not the par value.

Bank's service aids depositors

Your bank will buy or sell securities of this character through reputable brokers without additional charge. It is part of their service and a valuable protection to their depositors. When selling securities, it is necessary to leave the actual bond or stock certificate with your bank or broker in order that it may be delivered promptly when the sale is

effected. When purchasing securities immediate delivery is very often delayed due to the fact that many securities are purchased from brokers who may be situated at more or less distant points.

Consult your bank

In view of the fact that full payment is required when the order is placed for the purchase of securities one cannot be too careful in choosing a reputable broker, and as banks extend the courtesy of such service it is by all means advisable to have the bank handle the transaction, relieving one of responsibility and possible anxiety due to slow delivery. The same applies to sales of securities.

Funds released when agreement fulfilled

Escrow Agreements—An "Escrow agreement" usually but not necessarily involves a bank and two or more persons. Suppose John Jones and William Brown are strangers, and Jones approaches Brown upon business involving the delivery of securities, deeds to

property, or the payment of money to Brown, contingent upon the performance by Brown of some particular deed or act. Brown, not knowing Jones, might ask Jones to deliver these securities, etc., to a third party, to be kept by the third party until he, Jones, has satisfactory evidence that the deed or act has been performed. This third party would undoubtedly be a bank, and the written agreement entered into by the two individuals and the bank would be called an "escrow agreement."

Convenient and safe

Letters of Credit—A "letter of credit" is issued by a bank or banker, and signed by the proper officer, for the safe-guarding of funds for the traveling public.

As the name implies it is a "letter," on the first page of which it instructs the bank's correspondents all over the world to honor the drafts of the person

or persons indicated therein up to the amount noted. It is usually issued for the term of one year. In some instances the signature is written on the letter of credit and in other cases on a separate card, inserted in a leather folder, bearing the signature for identification. A list is furnished of the banks and bankers who are authorized to cash the drafts.

Preferable to carrying actual money

Upon presentation of the letter of credit and your specimen signature card, if any, the amount required may be drawn, the payment being noted on the letter of credit. Should the full amount specified be drawn the letter of credit is held by the bank or banker cashing the last draft, which completes the transaction. In case the total amount is not drawn the balance will be remitted by the issuing bank or banker. A small charge is made for this service.

Should it be lost, stolen or destroyed, notify the nearest correspondent of the

issuing bank and a new letter of credit will be issued to replace same for the unused amount.

Desirable, safe and convenient

Traveler's Checks—Many banks and express companies have developed a form of currency for use in traveling. This form of currency is called "traveler's checks." They are issued in amounts of from $5.00 upwards. On its face is the name of the issuing company, the amount of money represented, and a serial number. It is signed by an officer of the bank or company.

When purchasing these checks one is required to sign his name on each check, usually in the upper left hand corner.

When it is desired to secure currency or pay a bill with it, the name again is signed usually in the lower left hand corner in the presence of the party who is to cash the check or to whom it

is to be given. The signatures must agree. They are printed on safety paper, making it almost impossible to alter them in any way without detection and are acceptable practically everywhere.

Act promptly

Should they be lost, stolen or destroyed, simply notify the nearest branch office of the bank or company issuing the checks and (in this connection it is well to keep a separate record of the serial number of each check as this information will be required) they will be replaced with new checks. The issuing company stands the loss if the name is forged. The charge is moderate for this form of protection.

Insure protection

Safekeeping of Securities—A bank for the convenience of the public maintains a department for the safekeeping of securities. A receipt is issued describing in full the securities deposited.

A valuable service

The bank attends to the "clipping of coupons" from bonds and prepares proper ownership certificates. On stock in corporations a form letter is signed by the owner instructing the corporation to send dividend checks to, either the owner in care of the bank, or to the bank, for credit to the owner's account.

The above as well as all other income is collected when due and deposited to the credit of the owner who is advised of each transaction.

This relieves the owner of the necessity of keeping record of dividend and coupon dates and insures prompt collection of income. The charge for this service is moderate, depending upon the par value of the securities or the amount of income collected.

A bank's duty

Death of Depositor—As soon as a bank has knowledge of the death of a depositor the law prevents the bank from honoring any checks of the de-

ceased, even though they be dated prior to the date of death. If it should pay a check when aware of the death, the bank is liable to the estate for the amount so paid in case the total assets of the estate be insufficient to cover the debts of the deceased. This, however, does not apply to certified checks dated prior to death, as they become the obligation of the bank.

Gold coin

Monetary System of the United States—Weight, 25.8 grains to the dollar; fineness, 900-1000, unlimited as to issue; denominations, $2.50, $5, $10, $20; legal tender, unlimited; receivable for all public dues; exchangeable for gold certificates and subsidiary and minor coin.

Standard silver dollars

Weight, 412.5 grains; fineness, 900-1000; ratio to gold, 15.988 to 1; coinage ceased in 1905, resumed in 1921; legal tender, unlimited, unless otherwise contracted; receivable for all public dues; exchange-

able for silver certificates and smaller coins.

Subsidiary silver coin

Weight, 385.8 grains to the dollar; fineness, 900-1000; ratio to gold, 14.953 to 1. Limit of issue, needs of the people. Denominations 10 cents, 25 cents, 50 cents; legal tender not to exceed $10; receivable for all dues up to $10; exchangeable for minor coin; redeemable in "lawful money" at the Treasury in sums of multiples of $20.

Minor coin

Weight 5 cent piece, 77.16 grains, 75 per cent copper, 25 per cent nickel; 1 cent piece, 48 grains, 95 per cent copper, 5 per cent tin and zinc; limit of issue, needs of the people; legal tender not to exceed 25 cents; receivable for all dues up to 25 cents; redeemable in "lawful money" at the Treasury in sums or multiples of $20.

Gold certificates

Limit of issue for gold bullion, to two-thirds of the amount of gold certificates

outstanding; for gold coin, unlimited, unless gold coin reserve against United States notes (greenbacks) falls below $100,000,000; denominations, $10, $20, $50, $100, $500, $1,000, $5,000, $10,000; made legal tender by act Dec. 24, 1919; receivable for all public dues; redeemable in gold coin at the Treasury.

Silver certificates Unlimited as to issue for standard silver dollars; denominations, $1, $2, $5, $10, $20, $50, $100; not a legal tender; receivable for all public dues; redeemable in silver dollars at the Treasury.

United States notes Limit of issue, $346,681,016; denominations, $1, $2, $5, $10, $20, $50, $100, $500, $1,000; legal tender for all debts, public and private, except customs and interest on the public debt; receivable for all public dues; redeemable in gold at the Treasury.

Treasury notes of 1890 No further issues; volume steadily diminishing by redemption in silver dol-

lars; denominations, $1, $2, $5, $10, $20, $50, $100, $500, $1,000; legal tender, unlimited, unless otherwise contracted; receivable for all public dues; redeemable in gold or silver dollars at the Treasury.

National bank notes

Limit of issue not to exceed capital of banks; denominations, $5, $10, $20, $50, $100, $500, $1,000; not a legal tender; receivable for all public dues except customs; redeemable in "lawful money" at the Treasury or at bank of issue.

Federal reserve bank notes

Issue unlimited, except by the required security, and by the discretion of the Federal Reserve Board; denominations, $1, $2, $5, $10, $20, $50, $100, $500, $1,000; not a legal tender; receivable for all public dues except customs; redeemable in "lawful money" at the Treasury or at bank of issue.

Federal reserve notes

Limit of issue same as Federal Reserve bank notes; denominations, $5, $10, $20,

$50, $100, $500, $1,000, $5,000, $10,000; not a legal tender; receivable for all public dues; redeemable in gold at the Treasury, and in gold or "lawful money" at any Federal Reserve bank.

Value and weight

Gold—The unit in weighing gold is the troy ounce. A "fine" ounce means an ounce of pure gold. The mint value of gold does not fluctuate, but remains constant at $20.67183462 per fine ounce. Troy measure is used in weighing gold. The grain is the same in both troy and avoirdupois measure, but the ounce and the pound are not the same. The troy ounce contains 480 grains and the troy pound 5,760 grains, there being 12 ounces to the pound. The troy pound is never used in weighing gold, even when the weights of large quantities are to be computed. The avoirdupois ounce contains 437½ grains and the avoirdupois pound contains 7,000 grains, th being 16 ounces to the pound.

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